Regulations for private banking

Turn compliance burden into an advantage

The compliance burden in private banking is not getting smaller any time soon. On the contrary, new regulations continue to mushroom, especially in the areas of client protection and tax compliance.

Much of the compliance burden affects the front office. The onboarding process, for example, has become increasingly laborious and time-consuming for both clients and RMs (relationship manager). Clients are swamped with documents they need to sign, pushed to provide more and more detailed information and asked to fill out multiple questionnaires. Time with the RM is consumed by compliance-related tasks rather than investment discussions. Even if the clients understand the legal need for the many steps in the onboarding process, they may be disappointed that it is inefficient, redundant and disjointed.

While compliance rules reduce risk, they also constrain the flexibility of the sales process. The RM is required to associate transactions with the entire sales process, voice log and questionnaire. The KYC process has also become more detailed. A case in point is source of wealth. Not too long ago, ticking a box on a form was largely considered sufficient to indicate where money came from. Today, the source or sources are checked diligently and proof is required.

How can the bank increase profitability, despite the massive investments in processes and infrastructure that are required to comply with regulations?

Banks could offer the client the assurance ‘of being compliant’. This will get the message across that compliance is an ethical behavior and not only enforced by the bank (by introducing, for example, bonus-relevant key risk indicators), but also valued by the bank. Compliance is sold as an advantage, a core competence and a service. As most clients want to be compliant, such a message will also change their perception of the RM and of the advisory process.

In addition, banks can view compliance as an opportunity to improve investment advice, rather than a burden. With much more detailed information about the client and the client’s wealth, the bank can employ analytics, explore and match client and product data and identify good investment opportunities.

Tap the emotions of your client. It helps to be compliant

Today, data collected from clients for regulatory purposes is mainly used to exclude products from the potential investment list. However, in addition to excluding products that are not suitable, the data should be used to identify products that should be included. For example, the age of a client combined with his/her job experience could help generate a list of all products within a given volatility band. Numerous combinations of other attributes are also possible. This exercise requires extremely well integrated CRM and core banking systems. However, once the technical setup is established for such business intelligence tools, more thrilling advice can be generated, and new data categories can be explored. Categorization of products and clients based on emotional criteria could be a new and interesting area. From the client profile, clients could be categorized according to dreams they had in their childhood or positive experiences they had in their lives. Accordingly, products could be matched to the clients on these factors. A tool such as this could provide the RMs with a much better investment proposal list for their meetings with the client.

Business intelligence tools developed to select promising products for the client rely heavily on data quality and data integration. Typically, banks have detailed transactional data but they often lack higher-level information about clients. With the potential of acquiring such data in the course of client onboarding and during the sales process, the challenge is one of centralising and structuring the data to make them available to the business intelligence tools. The quality of the advice stands or falls with the ability to provide an integrated view of a client's profile, activities, requirements and values.

Data integration across various front-office processes and systems and especially between the CRM (client relationship management) system and the core banking system, is not trivial. Data models and semantics may differ. Some data might be captured multiple times, while other data might be missing. Data cleansing and data maintenance is typically an ongoing endeavour and should not be underestimated.

Against the backdrop of the prevailing white money policy, the capability and strength of the logic used in the tools that generate investment advice is crucial. For the development of this logic, deep understanding of client needs and values, products and financial markets is required.

Conclusion

Or is everything just a matter of buying the right advisory team? Some senior bankers believe that the capability of the RM is the most significant factor in the sales process and one that cannot be trained. For them, relationship elements account for 90% of the sales success, while only 10% is attributed to data provision and numbers.

There is no way around the compliance duties, but banks will have a competitive edge if they take advantage of the information that they are collecting. The banks can leverage investments into compliance infrastructure to gain a better understanding of client needs and to deliver superior investment advice. Together with the capability of the RMs and their teams, the bank can turn the compliance burden into a competitive advantage.